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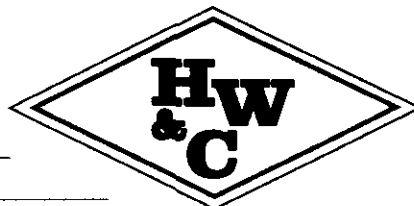
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**Pennington Medical Foundation
Baton Rouge, Louisiana
December 31, 2003**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6/1/05

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.



CERTIFIED PUBLIC ACCOUNTANTS

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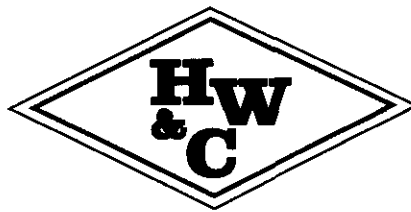
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**Pennington Medical Foundation
Baton Rouge, Louisiana
December 31, 2003**

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HAWTHORN, WAYMOUTH & CARROLL, L.L.P.



CERTIFIED PUBLIC ACCOUNTANTS

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(225) 923-3000 • FAX (225) 923-3008
April 21, 2004

Independent Auditor's Report

The Officers and Board of Trustees
Pennington Medical Foundation
Baton Rouge, Louisiana

We have audited the accompanying statement of financial position of the

**Pennington Medical Foundation
A Non-Profit Organization
Baton Rouge, Louisiana**

as of December 31, 2003, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennington Medical Foundation as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.

Pennington Medical Foundation
Statement of Financial Position
December 31, 2003

A s s e t s

Current Assets

Cash and cash equivalents	\$10,366,221
Investments	76,012,567
Accrued interest	60,349
Prepaid insurance	3,699
Pending trades receivable	<u>196,228</u>
	86,639,064

Assets Held in Trust	3,611,405
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Property and Equipment, Net	57,190,978
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Other Assets

Note receivable - Research Foundation	<u>260,000</u>
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<u>Total assets</u>	<u>147,701,447</u>
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L i a b i l i t i e s a n d N e t A s s e t s

Current Liabilities

Accounts payable	1,261,805
Retainage payable	1,639,918
Notes payable, current maturities	640,000
Pending trades payable	<u>72,184</u>
	3,613,907

Long-Term Liabilities

Notes payable, less current maturities	<u>40,175,000</u>
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Net Assets

Unrestricted	62,279,252
Unrestricted - designated	<u>41,633,288</u>
	103,912,540

<u>Total liabilities and net assets</u>	<u>147,701,447</u>
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The accompanying notes are an integral part of these statements.

**Pennington Medical Foundation
Statement of Activities
Year Ended December 31, 2003**

<u>Unrestricted</u>	
Revenue	
Donations	\$4,977
Investment income	<u>10,789,183</u>
<u>Total revenue</u>	<u>10,794,160</u>
Expenses	
Program services	1,976,041
General and administrative	<u>2,151,180</u>
<u>Total expenses</u>	<u>4,127,221</u>
Change in Net Assets	6,666,939
Net Assets	
Beginning of year	<u>97,245,601</u>
End of year	<u>103,912,540</u>

The accompanying notes are an integral part of these statements.

Pennington Medial Foundation
Statement of Functional Expenses
Year Ended December 31, 2003

	<u>Program Expenses</u>	<u>General and Administrative</u>	<u>Total</u>
Contracts and supplements	\$913,132	\$45,456	\$958,588
Pennington Biomedical			
Research Center projects	94,392		94,392
Operations and maintenance	5,561	850,000	855,561
Professional fees	28,145	301,618	329,763
Office expense	8,131	18,803	26,934
Severance tax		27,465	27,465
Foreign taxes		41,636	41,636
Depreciation expense	301,899	787,721	1,089,620
General development	9,825	50,403	60,228
Recruitment	27,399		27,399
Travel	11,334		11,334
Insurance		24,522	24,522
Letter of credit and remarketing fees	406,026		406,026
Computer equipment	75,312	3,000	78,312
Supplies	53,647		53,647
Interest	40,136		40,136
Donations		100	100
Miscellaneous	<u>1,102</u>	<u>456</u>	<u>1,558</u>
	<u>1,976,041</u>	<u>2,151,180</u>	<u>4,127,221</u>

The accompanying notes are an integral part of these statements.

Pennington Medial Foundation
Statement of Cash Flows
Year Ended December 31, 2003

Cash Flows From Operating Activities

Change in net assets	\$6,666,939
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	1,089,620
Loss on disposal	1,214
Realized gains on investments	(261,046)
Unrealized gains on investments	(9,154,365)
Changes in operating assets and liabilities	
Accrued interest receivable	(58,590)
Prepaid expenses	(2,298)
Pending trades receivable	(196,228)
Accounts payable	(2,021,485)
Retainage payable	732,723
Pending trades payable	<u>72,184</u>
<u>Net cash provided by (supplied to) operating activities</u>	<u>(3,131,332)</u>

Cash Flows From Investing Activities

Fixed asset additions	(17,275,422)
Purchase of investments	(5,634,701)
Proceeds from sale of investments	4,850,558
Issuance of note receivable	(60,000)
Decrease in assets held in trust	<u>18,513,004</u>
<u>Net cash provided by investing activities</u>	<u>393,439</u>

Net Increase (Decrease) in Cash (2,737,893)

Cash and Cash Equivalents, beginning of year 13,104,114

Cash and Cash Equivalents, end of year 10,366,221

The accompanying notes are an integral part of these statements.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2003

Note 1-Summary of Accounting Policies

A. Nature of Operations

The Pennington Medical Foundation (the Foundation) is a non-profit organization created in 1980 exclusively for scientific purposes in constructing and equipping the Pennington Biomedical Research Center (the Center), a division of the Louisiana State University Agricultural and Mechanical College. The Foundation provides financial support, in conjunction with the Pennington Biomedical Research Foundation (the Research Foundation), for medical research conducted at the Center.

B. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

C. Basis of Presentation

The Foundation has adopted Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include those net assets whose use by the Foundation is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation. Temporarily restricted net assets are those net assets whose use by the Foundation has been limited by donors (a) to later periods of time or other specific dates, or (b) to specified purposes. Permanently restricted net assets are those net assets received with donor-imposed restrictions limiting the Foundation's use of the asset. The Foundation does not have any temporarily or permanently restricted net assets.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2003

Note 1-Summary of Accounting Policies (continued)

E. Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

F. Investments

The Foundation has adopted Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* ("SFAS No. 124"). Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in net assets. Investment income is reported as increases in unrestricted net assets in the reporting period in which the income and gains are recognized.

G. Property and Equipment

Property and equipment are capitalized at cost. Maintenance and repair expenditures are expensed as incurred. Depreciation is computed using straight line and accelerated methods over the estimated useful lives of 5 to 39 years.

H. Income Taxes

The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501 (c)(3) of the Internal Revenue Code and is exempt from federal income taxes. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Foundation has been classified as an organization other than a private foundation.

I. Capitalized Interest

The Foundation follows the policy of capitalizing interest as a component of the cost of property, plant and equipment constructed for its own use. In 2003, total interest incurred was \$461,354, of which \$421,218 was capitalized, and \$40,136 was charged to operations.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2003

Note 1-Summary of Accounting Policies (continued)

J. Functional Expenses

Functional expenses are allocated between program services and supporting services, which include fund-raising, merchandise, and general and administrative. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Note 2-Investments

Investments at December 31, 2003 are comprised of the following:

	<u>Cost</u>	<u>Market Value</u>
U. S. Government Obligations	\$216,453	\$230,398
Equities	23,970,972	30,558,201
Fixed Income	27,000,000	26,646,300
Meridian Diversified Fund	15,805,023	17,280,135
Mineral interest	<u> </u>	<u>1,297,533</u>
	<u>66,992,448</u>	<u>76,012,567</u>

Investment earnings are comprised of the following for the year ended December 31, 2003:

Interest income	\$271,250
Dividends	575,360
Realized gains on sales of investments	261,046
Unrealized gains on investments	9,154,365
Royalty income	<u>527,162</u>
	<u>10,789,183</u>

Note 3-Assets Held in Trust

Assets held in trust, totaling \$3,611,405 at December 31, 2003, are pledged for the design, construction, and equipping of a basic science building.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2003

Note 4-Property and Equipment

The following schedule shows the changes in property and equipment for the year ended December 31, 2003:

	<u>2002 Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>2003 Balance</u>
Property and Equipment Not Being Depreciated					
Construction in progress	\$24,098,690		(\$24,098,690)		
<u>Total property and equipment not being depreciated</u>	<u>24,098,690</u>		<u>(24,098,690)</u>		
Other Property and Equipment					
Infrastructure	4,299,418	\$123,063			\$4,422,481
Less accumulated depreciation	<u>(2,649,301)</u>	<u>(259,819)</u>			<u>(2,909,120)</u>
<u>Total infrastructure</u>	<u>1,650,117</u>	<u>(136,756)</u>			<u>1,513,361</u>
Buildings	19,571,982	39,481,039			59,053,021
Less accumulated depreciation	<u>(4,389,897)</u>	<u>(544,071)</u>			<u>(4,933,968)</u>
<u>Total buildings</u>	<u>15,182,085</u>	<u>38,936,968</u>			<u>54,119,053</u>
Equipment	2,356,037	1,770,010		(10,106)	4,115,941
Less accumulated depreciation	<u>(2,280,539)</u>	<u>(285,730)</u>		<u>8,892</u>	<u>(2,557,377)</u>
<u>Total equipment</u>	<u>75,498</u>	<u>1,484,280</u>		<u>(1,214)</u>	<u>1,558,564</u>
<u>Total other property and equipment</u>	<u>16,907,700</u>	<u>40,284,492</u>		<u>(1,214)</u>	<u>57,190,978</u>
Property and Equipment, Net	<u>41,006,390</u>	<u>40,284,492</u>	<u>(24,098,690)</u>	<u>(1,214)</u>	<u>57,190,978</u>

Depreciation expense for the year ended December 31, 2003 was \$1,089,620.

Note 5-Notes Receivable

The Foundation has a note receivable from the Research Foundation in the amount of \$260,000. Interest is at 5% and the note is due on June 30, 2008.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2003

Note 6-Notes Payable

The Foundation has two notes payable totaling \$40,815,000 at December 31, 2003. The interest rate at December 31, 2003 was 1.18%. Payments on the two notes begin in 2004. The notes are secured by a security interest in the Foundation's assets, and an Irrevocable Direct Pay Letter of Credit for \$41,497,114.

	\$40,815,000
Less current maturities of notes payable	<u>640,000</u>
Notes payable, less current maturities	<u>40,175,000</u>

The following schedule shows the changes in notes payable for the year ended December 31, 2003:

<u>2002</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2003</u> <u>Balance</u>
<u>\$40,815,000</u>	<u> </u>	<u> </u>	<u>\$40,815,000</u>

The following schedule shows future principal amounts due.

2004	\$640,000
2005	690,000
2006	740,000
2007	790,000
2008	840,000
2009 and future years	37,115,000

Note 7-Net Assets Unrestricted - Designated

Unrestricted net assets designated by the Board of Trustees as of December 31, 2003, are as follows:

Series 2001 Debt	\$40,815,000
Maintenance Reserves	<u>818,288</u>
	<u>41,633,288</u>

Note 8-Related Party Transactions

The Foundation has architectural contracts in the amount of \$3,910,823 with a trustee of the Foundation of which approximately \$3,772,476 has been incurred as of December 31, 2003.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2003

Note 9-Management Agreement

On October 10, 1996, the Foundation entered into an agreement with the Pennington Biomedical Research Foundation. This agreement provided that the Research Foundation would undertake the responsibility for the operation and maintenance of the Claude B. Pennington Conference and Education Center. The Medical Foundation paid \$850,000 in 2003 to the Research Foundation for these operating expenses.

Note 10-Concentrations of Credit Risk

The Foundation maintains its cash in deposit accounts at a financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. The balances at times may exceed federally insured limits. At December 31, 2003, the Foundation's deposits did not exceed the insured limit.

The Foundation's investments are secured by Securities Investor Protection Corporation (SIPC) for up to \$60 million through insurance purchased by the investment company. However, the \$60 million of protection and SIPC do not insure the quality of investments or protect against losses from fluctuating market values.

Note 11-Fair Values of Financial Instruments

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

Cash, and cash equivalents. The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Investments. The carrying values of investments reported in the statement of financial position are equal to the estimated fair values of those investments. The fair values of investments are based on quoted market prices for those or similar investments.

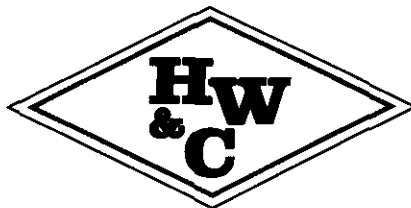
Notes payable. The carrying values of notes payable reported in the statement of financial position are equal to the estimated fair values of the notes payable. The fair values of the notes payable have been based upon market quotation for similar debt instruments or estimated using discounted cash flow analysis based upon the Foundation's current incremental borrowing rates for similar types of borrowing arrangements.

Note 12-Commitments

In 1999, the Pennington Biomedical Research Center entered into a seven year agreement with Dr. Claude Bouchard for the position of Executive Director. Included in this agreement were sources of support from the Foundation. These include an annual salary supplement of \$100,000, plus employee benefits of approximately \$20,000. In addition, the Foundation agreed that it would guarantee support to Dr. Bouchard up to \$2,400,000 for the 2004 year toward the implementation of his Vision 2005 strategic plan for the Center. The Foundation provided \$1,009,129 in 2003 towards the implementation of Vision 2005.

Supplementary Information

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.



CERTIFIED PUBLIC ACCOUNTANTS

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April 21, 2004 (as revised)

**Independent Auditor's Report
on Supplementary Information**

To the Officers and Board of Trustees
Pennington Medical Foundation
Baton Rouge, Louisiana

Our report on our audit of the basic financial statements of the Pennington Medical Foundation for 2003 appears on page 3. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, in the format presented, is not a required part of the basic financial statements, but is supplementary information required by the Louisiana State University System. Our original report dated April 21, 2004 on the supplementary information stated that the information had not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we expressed no opinion on it.

Our revised report on the supplementary information is as follows. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.

Pennington Medical Foundation
Statement of Net Assets
December 31, 2003

A s s e t s

2003

Current Assets

Cash and cash equivalents	\$10,366,221
Investments	76,012,567
Deferred charges and prepaid expenses	3,699
Other current assets	<u>256,577</u>
<u>Total current assets</u>	<u>86,639,064</u>

Noncurrent Assets

Restricted assets - cash and cash equivalents	3,611,405
Notes receivable	260,000
Capital assets, net	<u>57,190,978</u>
<u>Total noncurrent assets</u>	<u>61,062,383</u>

<u>Total assets</u>	<u>147,701,447</u>
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L i a b i l i t i e s a n d N e t A s s e t s

Current Liabilities

Accounts payable and accrued liabilities	1,261,805
Notes payable	640,000
Other current liabilities	<u>1,712,102</u>

<u>Total current liabilities</u>	<u>3,613,907</u>
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Noncurrent Liabilities

Notes payable	<u>40,175,000</u>
<u>Total noncurrent liabilities</u>	<u>40,175,000</u>

<u>Total liabilities</u>	<u>43,788,907</u>
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Net Assets

Investment in capital assets, net of related debt	16,375,978
Unrestricted	<u>87,536,562</u>
<u>Total net assets</u>	<u>103,912,540</u>

Pennington Medical Foundation
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2003

	<u>2003</u>
Operating Revenues	
Gifts received by the foundations	<u>4,977</u>
<u>Total operating revenues</u>	<u>4,977</u>
Operating Expenses	
Other operating expenses	<u>2,453,079</u>
<u>Total operating expenses</u>	<u>2,453,079</u>
<u>Operating income (loss)</u>	<u>(2,448,102)</u>
Nonoperating Revenues (Expenses)	
Net investment income	10,789,183
Interest expense	(40,136)
Payments to or on behalf of the university	<u>(1,634,006)</u>
<u>Net nonoperating revenues (expenses)</u>	<u>9,115,041</u>
<u>Increase (decrease) in net assets</u>	<u>6,666,939</u>
Net assets at beginning of year	<u>97,245,601</u>
Net assets at end of year	<u><u>103,912,540</u></u>